

**REPORT OF THE AUDIT OF THE
HART COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HART COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Hart County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances of the primary government decreased \$83,303 from the beginning of the year, resulting in a cash surplus of \$1,252,295 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$3,335,000. Future collections of \$4,842,553 are needed over the next sixteen years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$621,369 as of June 30, 2003. Future principal and interest payments of \$718,662 are needed to meet these obligations.

Report Comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Jailer Should Prepare An Annual Report On The Jail Canteen Fund And Submit It To The County Treasurer In Accordance With Kentucky Revised Statutes

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Hart County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances-governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances-proprietary fund type; and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Hart County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Hart County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements of the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc. are presented according to accounting principles generally accepted in the United States of America. This basis of accounting is different from that of the financial statements of the primary government of Hart County, Kentucky.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the primary government financial statements present fairly, in all material respects, the financial position of the primary government



To the People of Kentucky
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Members of the Hart County Fiscal Court

of Hart County, Kentucky, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

However, the primary government financial statements, because the financial data of component units of Hart County, Kentucky, is presented according to a different basis of accounting, do not purport to, and do not, present fairly the financial position of Hart County, Kentucky, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 3, 2004 on our consideration of Hart County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Hart County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Jailer Should Prepare An Annual Report On The Jail Canteen Fund And Submit It To The County Treasurer In Accordance With Kentucky Revised Statutes

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 3, 2004

HART COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Terry Shelton	County Judge/Executive
Jim Stewart	Magistrate
Melvin Perkins	Magistrate
Ronald Riordan	Magistrate
Franklin Turner	Magistrate
Don Kessinger	Magistrate

Other Elected Officials:

Mike Nichols	County Attorney
Keith Riordan	Jailer
Lisa Hensley	County Clerk
Conroy Harris	Circuit Court Clerk
Jeff Staples	Sheriff
Vicki Reynolds	Property Valuation Administrator
Jeff Roten	Coroner

Appointed Personnel:

Sue Gardner	County Treasurer
Rietta Osborne	Occupational Tax Collector
Donna Centers	Finance Officer
Victor Girard	911 Administrator

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type		
	General	Capital Projects	Debt Service
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 943,076	\$ 5,849	\$ 522
Investments	350,082		
Accounts Receivable			
Fixed Assets, net			
Property and Improvements			
Total Assets	<u>\$ 1,293,158</u>	<u>\$ 5,849</u>	<u>\$ 522</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Retirement of Debt	\$	\$	\$
Capital Leases (Note 5)	621,369		
Bond Payments (Note 4)			3,334,478
Total Other Resources	<u>\$ 621,369</u>	<u>\$ 0</u>	<u>\$ 3,334,478</u>
Total Assets and Other Resources	<u><u>\$ 1,914,527</u></u>	<u><u>\$ 5,849</u></u>	<u><u>\$ 3,335,000</u></u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only) Primary Government	Discretely Presented Component Units		Totals (Memorandum Only) Reporting Entity
Enterprise	Trust and Agency		Solid Waste Management District	Hart County Industrial Authority, Inc.	
\$ 38,653	\$ 41,355	\$ 1,029,455 350,082	\$ 90,808	\$ 47,193	\$ 1,167,456 350,082
			111,408	5,630	117,038
			1,004,434		1,004,434
				2,040,957	2,040,957
<u>\$ 38,653</u>	<u>\$ 41,355</u>	<u>\$ 1,379,537</u>	<u>\$ 1,206,650</u>	<u>\$ 2,093,780</u>	<u>\$ 4,679,967</u>
\$	\$	\$ 621,369	\$	\$ 2,081,480	\$ 2,081,480
		3,334,478			621,369
					3,334,478
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,955,847</u>	<u>\$ 0</u>	<u>\$ 2,081,480</u>	<u>\$ 6,037,327</u>
<u>\$ 38,653</u>	<u>\$ 41,355</u>	<u>\$ 5,335,384</u>	<u>\$ 1,206,650</u>	<u>\$ 4,175,260</u>	<u>\$ 10,717,294</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	Governmental Fund Type		
	General	Capital Projects	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases (Note 5)	\$ 621,369	\$	\$
Bonds:			
Series 1998 (Note 4)			3,335,000
Payroll Liabilities	47,234		
Accounts Payable			
Garbage Service Deposits Payable			
Payroll Taxes Payable			
Retirement Plan Payable			
Accrued Wages			
Accrued Leave			
Accrued Interest			
Leases Payable			
Notes Payable			
Total Liabilities	<u>\$ 668,603</u>	<u>\$ 0</u>	<u>\$ 3,335,000</u>
<u>Equity</u>			
Contributed Capital	\$	\$	\$
Investment in General Fixed Assets			
Retained Earnings			
Fund Balances:			
Reserved	142,555	5,849	
Unreserved	<u>1,103,369</u>		
Total Equity	<u>\$ 1,245,924</u>	<u>\$ 5,849</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 1,914,527</u></u>	<u><u>\$ 5,849</u></u>	<u><u>\$ 3,335,000</u></u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only) Primary Government	Discretely Presented Component Units		Totals (Memorandum Only) Reporting Entity
Enterprise	Trust and Agency		Solid Waste Management District	Hart County Industrial Authority, Inc.	
\$	\$	\$ 621,369	\$	\$	\$ 621,369
		3,335,000			3,335,000
		47,234			47,234
			40,603	29,110	69,713
			4,735		4,735
			5,032		5,032
			3,482		3,482
			1,640		1,640
			5,989		5,989
			3,900		3,900
			405,061		405,061
			574,063	2,081,480	2,655,543
\$ 0	\$ 0	\$ 4,003,603	\$ 1,044,505	\$ 2,110,590	\$ 7,158,698
\$	\$	\$	\$ 49,867	\$	\$ 49,867
38,653		38,653	112,278	2,040,957	2,040,957
	41,355	189,759			189,759
		1,103,369		23,713	1,127,082
\$ 38,653	\$ 41,355	\$ 1,331,781	\$ 162,145	\$ 2,064,670	\$ 3,558,596
\$ 38,653	\$ 41,355	\$ 5,335,384	\$ 1,206,650	\$ 4,175,260	\$ 10,717,294

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

HART COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,680,323	\$ 982,706	\$ 799,593	\$ 70,459
Other Financing Sources:				
Transfers In	200,000	37,575	574,207	
Kentucky Advance Revenue Program	1,224,600	180,100		
Lease-Purchase Proceeds	647,616			
Total Cash Receipts	<u>\$ 4,752,539</u>	<u>\$ 1,200,381</u>	<u>\$ 1,373,800</u>	<u>\$ 70,459</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,845,343	\$ 708,947	\$ 1,248,917	\$ 60,813
Lease Acquisition Account:				
Cash Management Fees	198			
Other Financing Uses:				
Transfers Out	671,782	200,000	301,785	
Bonds:				
Principal Paid				
Interest Paid				
Lease-Purchase Principal Paid	40,947			
Kentucky Advance Revenue Program Repaid	1,224,600	180,100		
Total Cash Disbursements	<u>\$ 4,782,870</u>	<u>\$ 1,089,047</u>	<u>\$ 1,550,702</u>	<u>\$ 60,813</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (30,331)	\$ 111,334	\$ (176,902)	\$ 9,646
Cash Balance - July 1, 2002	396,659	608,702	235,055	46,368
Cash Balance - June 30, 2003	<u>\$ 366,328</u>	<u>\$ 720,036</u>	<u>\$ 58,153</u>	<u>\$ 56,014</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

HART COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	Jail Canteen Fund
<u>Cash Receipts</u>	
Jail Canteen Receipts	\$ 66,416
Total Cash Receipts	\$ 66,416
<u>Cash Disbursements</u>	
Jail Canteen Expenditures	\$ 61,199
Total Cash Disbursements	\$ 61,199
Excess of Cash Receipts Over Cash Disbursements	\$ 5,217
Cash Balance - July 1, 2002	33,436
Cash Balance - June 30, 2003	\$ 38,653

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

HART COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	<u>Jail Canteen Fund</u>
Cash Flows from Operating Activities:	
Operating Income	\$ 5,217
Net Cash Provided by Operating Activities	\$ 5,217
Net Increase in Cash and Cash Equivalents	\$ 5,217
Cash and Cash Equivalents - July 1, 2002	33,436
Cash and Cash Equivalents - July 1, 2003	\$ 38,653

The accompanying notes are an integral part of the financial statements.

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HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN RETAINED EARNINGS

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN RETAINED EARNINGS

For The Fiscal Year Ended June 30, 2003

Operating Revenues

Charges for Services	\$ 1,164,608
Other Revenues	<u>22,878</u>
Total Operating Revenues	1,187,486

Operating Expenses

Landfill and Disposal Costs	252,302
Salaries and Wages	274,058
Payroll Taxes	30,015
Employee Benefits	39,523
Depreciation	153,511
Fuel	59,372
Repairs, Maintenance and Supplies	162,202
Insurance	31,813
Office Supplies and Expenses	6,375
Postage and Postal Charges	8,841
Travel	118
Uniforms	2,442
Utilities and Telephone	6,856
Professional Fees	5,000
Taxes, Licenses, Permits and Fees	3,959
Miscellaneous and Other Expenses	<u>9,184</u>
Total Operating Expenses	<u>1,045,571</u>

Operating Income	141,915
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Non-Operating Revenues (Expenses)

Interest Earnings	1,309
Interest Expense	(48,398)
Loss of Disposal of Fixed Assets	<u>(500)</u>
Net Non-Operating Expenses	<u>(47,589)</u>

Net Income	94,326
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Depreciation Transferred to Contributions	<u>10,782</u>
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Increase in Retained Earnings	105,108
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Retained Earnings - Beginning	<u>7,170</u>
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Retained Earnings - Ending	<u><u>\$ 112,278</u></u>
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The accompanying notes are an integral part of the financial statements.

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HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS

HART COUNTY SOLID WASTE MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS

For The Fiscal Year Ended June 30, 2003

Cash Flows From Operating Activities

Net Income	\$ 141,915
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation	153,511
Operating Expense Financed	290
Change in Assets and Liabilities:	
Increase in Accounts Receivable	(10,404)
Increase in Accounts Payable	7,365
Decrease in Payroll Taxes Payable	(4,105)
Increase in Retirement Plan Payable	2,951
Decrease in Accrued Wages	(10,759)
Increase in Accrued Leave	1,974
Increase in Garbage Service Deposits Payable	4,735
Total Adjustments	<u>145,558</u>

Net Cash Provided By Operating Activities 287,473

Cash Flows From Capital and Related Financing Activities

Principal Payments on Leases and Notes	(222,613)
Interest Paid on Leases and Notes	(49,040)
Purchase of Fixed Assets	(5,293)
Proceeds from Disposal of Fixed Assets	<u>100</u>

Net Cash Used by Capital and Related Financing Activities (276,846)

Cash Flows From Investing Activities

Interest Received on Cash and Cash Equivalents	1,283
Transfer from Restricted Cash Account	<u>7,480</u>

Net Cash Provided by Investing Activities 8,763

Net Increase in Cash and Cash Equivalents 19,390

Cash and Cash Equivalents, Beginning 71,418

Cash and Cash Equivalents, Ending \$ 90,808

The accompanying notes are an integral part of the financial statements.

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HART COUNTY INDUSTRIAL AUTHORITY, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

HART COUNTY INDUSTRIAL AUTHORITY, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For The Fiscal Year Ended June 30, 2003

	Governmental Fund Type <u>General</u>
Revenues:	
Rental Income	\$ 166,800
Interest Income	267
Other Income	<u>10,913</u>
 Total Revenues	 177,980
Expenditures:	
Commissions	20,215
Professional Fees	1,400
Insurance	13,679
Utilities	776
Other Expenses	2,087
Capital Outlay	38,850
Debt Service - Principal	37,590
- Interest	<u>98,840</u>
 Total Expenditures	 <u>213,437</u>
Deficiency of Revenues	
Under Expenditures	(35,457)
Other Financing Sources:	
Installment Sale Collections	<u>25,130</u>
 Total Other Financing Sources	 <u>25,130</u>
Deficiency of Revenues and Other Financing Sources Under Expenditures	(10,327)
 Fund Balance, Beginning	 <u>34,040</u>
 Fund Balance, Ending	 <u><u>\$ 23,713</u></u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Hart County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Hart County Parks, Playgrounds, and Recreation District, the Hart County Public Properties Corporation, the Hart County 911 Emergency Telephone Service, the Hart County Solid Waste Management District, and the Hart County Industrial Authority, Inc. as part of the reporting entity. The Hart County Solid Waste Management District and the Hart County Industrial Authority, Inc. were audited by other auditors; copies of their audit reports are available upon request.

Hart County Parks, Playgrounds, and Recreation District

Hart County Fiscal Court has the authority to appoint a voting majority of the Hart County Parks, Playgrounds, and Recreation District's Board of Directors. The District is fiscally dependent on the fiscal court because the fiscal court has the ability to modify or approve rate or fee changes. The fiscal court is financially accountable for the District, legally entitled to the District's resources, and legally responsible for the District's debt. However, for the fiscal year ended June 30, 2003, the District had no financial activity.

Hart County Public Properties Corporation

The Hart County Public Properties Corporation is a legally separate entity established for the purpose of construction of the county jail building. The fiscal court has the authority to appoint a voting majority of the Public Properties Corporation's Board of Directors. The Corporation is fiscally dependent on the fiscal court because the fiscal court has the ability to approve or modify the Corporation's budget, modify or approve rate or fee changes, veto, overrule, or modify the decision of the Corporation's Board. The fiscal court is financially accountable for the Corporation, legally entitled to the Corporation's resources, and legally obligated for the Corporation's debt. Financial information for the Public Properties Corporation is blended within Hart County's financial statements.

Hart County 911 Emergency Telephone Service

The Hart County 911 Emergency Telephone Service (Service) is a legally separate entity established to provide, maintain, and operate 911 emergency services for the citizens of Hart County. The fiscal court has the authority to appoint a voting majority of the Service's board. The Service is fiscally dependent on the fiscal court because the fiscal court sets and collects the fees for the Service. This fiscal dependency requires the fiscal court to include the Service as a component unit. Financial information for the Service is blended within Hart County's financial statements.

HART COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Hart County Solid Waste Management District

Hart County Fiscal Court established the Hart County Solid Waste Management District (District) as a legally separate entity pursuant to KRS 67.083(3) and KRS 109.014(13) for the purpose of providing solid waste services for the residents of Hart County. The fiscal court has the authority to appoint a voting majority of the District's board. The District is fiscally dependent on the fiscal court because the fiscal court is obligated for a capital lease of solid waste equipment. This fiscal dependency requires the fiscal court to include the District as a component unit. Financial information for the District is discretely presented within our audit report.

Hart County Industrial Authority, Inc.

The Hart County Industrial Authority, Inc. (Authority) is a legally separate entity established to promote industrial growth in Hart County. The fiscal court has the authority to appoint a voting majority of the Authority's board. The Authority is fiscally dependent on the fiscal court because the fiscal court has authorized the County Judge Executive to cosign a bank note for the Industrial Authority, with the fiscal court acting as Guarantor. This fiscal dependency requires the fiscal court to include the Authority as a component unit. Financial information for the Authority is discretely presented within our audit report.

Additional - Hart County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Hart County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Hart County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Hart County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, the 911 Dispatch Fund, and the Tourist Fund.

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Hart County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Hart County Public Properties Corporation Fund of the fiscal court is reported as a Capital Projects Fund Type.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Hart County Enterprise Fund Type includes the Jail Canteen fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

The Hart County Jailer, Keith Riordan, did not report the jail canteen account to the county treasurer for the fiscal year ended June 30, 2003 as required by KRS 441.135(2).

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

5) Trust and Agency Fund Type

Trust and Agency Fund Type accounts for assets held in a trustee or agency capacity for others, and therefore cannot be used to support the county's own programs. The Hart County Trust and Agency Fund Type includes the Jail Inmate Fund, which is maintained by the county jailer.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Hart County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Hart County Public Properties because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

In addition, formal budgets are not adopted for the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc. The Department for Local Government does not require component entities to be budgeted.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Hart County Extension District is considered a related organization of Hart County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$434,276 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 300,000
Collateralized with securities held by pledging depository institution in the county's name	623,551
Collateralized with surety bond	306,768
Uncollateralized and uninsured	<u>434,276</u>
Total	<u><u>\$ 1,664,595</u></u>

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits and Investments (Continued)

B. Investments (Continued)

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Governmental Money Market Fund	\$	\$	\$ 142,555	\$ 142,555	\$ 142,555
Totals	\$	\$	\$ 142,555	\$ 142,555	\$ 142,555

Note 4. Long-Term Debt

The Hart County Public Properties Corporation, an independent corporate agency and instrumentality of Hart County, issued Mortgage Revenue Bonds, Series 1998, dated March 1, 1998, for the purpose of constructing a new detention facility. On March 1, 1998, \$3,865,000 of Mortgage Revenue Bonds were issued at various interest rates. As of June 30, 2003, the principal balance outstanding was \$3,335,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 155,905	\$ 145,000
2005	149,742	155,000
2006	143,077	160,000
2007	136,117	165,000
2008	128,858	175,000
2009-2013	517,513	995,000
2014-2018	262,363	1,250,000
2019	14,500	290,000
Totals	\$ 1,508,075	\$ 3,335,000

Note 5. Lease Agreements

The county has entered into the following lease agreements:

- A. On August 8, 1998, the county entered into a lease agreement at a rate of 5.1% for the upgrade of tower and dispatch equipment. The balance as of June 30, 2003 was \$7,500. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 192	\$ 7,500

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Lease Agreements (Continued)

- B. On September 20, 2002, Hart County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for courthouse renovations in the amount of \$490,000. The lease proceeds were deposited into a governmental money market fund at National City Bank. As of June 30, 2003, \$460,367 had been expended for courthouse renovations, leaving a balance in the account, including interest earned and less cash management fees, of \$30,143. As of June 30, 2003, the principal balance outstanding of the lease was \$458,510. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 14,205	\$ 43,259
2005	12,742	44,672
2006	11,297	46,130
2007	9,786	47,636
2008	8,237	49,191
2009-2013	<u>16,297</u>	<u>227,622</u>
Totals	<u>\$ 72,564</u>	<u>\$ 458,510</u>

- C. On April 3, 2003, Hart County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for courthouse renovations in the amount of \$157,616. The lease proceeds were deposited into a governmental money market fund at National City Bank. As of June 30, 2003, \$45,318 had been expended for courthouse renovations, leaving a balance in the account, including interest earned and less cash management fees, of \$112,411. As of June 30, 2003, the principal balance outstanding was \$155,359. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 4,534	\$ 13,783
2005	4,095	14,204
2006	3,665	14,638
2007	3,214	15,086
2008	2,755	15,546
2009-2013	<u>6,274</u>	<u>82,102</u>
Totals	<u>\$ 24,537</u>	<u>\$ 155,359</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Commitments and Contingencies

A. Hart County Solid Waste Management District Capital Lease

On March 31, 1999, the Hart County Fiscal Court entered into a lease agreement with Kentucky Area Development Districts (KADD) Financing Trust for the \$350,000 purchase of solid waste equipment. These payments are to be made by the Hart County Solid Waste Management District. As of June 30, 2003, the principal outstanding was \$155,400. The debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 6,650	\$ 52,600
2005	4,166	55,000
2006	<u>1,567</u>	<u>47,800</u>
Totals	<u>\$ 12,383</u>	<u>\$ 155,400</u>

B. Hart County Industrial Authority, Inc. Loans

- 1) On May 21, 1998, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc., in the amount of \$480,000. This loan was issued July 1, 1997, at a variable interest rate for one year. This note has been renewed July 1 of each subsequent year to date. When the loan was renewed on July 1, 2002, the interest rate was fixed at 5.25%. The Hart County Industrial Authority, Inc. is responsible for making the loan payments.
- 2) On May 21, 1998, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign a note at the bank for the Hart County Industrial Authority, Inc., in the amount of \$246,100 for the spec building. The loan was issued June 1, 1998, at an interest rate of 7.5% for two years. This was renewed on June 5, 2000 at a variable interest rate for two years, and then was renewed on July 1, 2002 at a fixed interest rate of 5.25%. The Hart County Industrial Authority, Inc. is responsible for making the loan payments.
- 3) On September 21, 2000, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive to co-sign a note at the bank for the Hart County Industrial Authority, Inc., in the amount of \$275,000 to retrofit the spec building. This loan was issued November 22, 2000 at a variable interest rate for one year. On July 5, 2001 the loan was renewed and the amount increased to a total of \$297,000 with an interest rate of 5.78%. On July 15, 2002, this note was renewed at a fixed interest rate of 5.25%. The Hart County Industrial Authority, Inc. is responsible for making monthly principal and interest payments of \$4,314. The principal balance as of June 30, 2003 for this note was \$226,789.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Commitments and Contingencies (Continued)

B. Hart County Industrial Authority, Inc. Loans (Continued)

- 4) In May 2000, the Hart County Fiscal Court authorized Terry Shelton, County Judge Executive to co-sign a note at the bank for the Hart County Industrial Authority, Inc., in the amount of \$35,000. The loan was issued May 11, 2000 at a variable interest rate for one year. The note has been renewed July 28 of each subsequent year to date. When the loan was renewed on July 28, 2002, the interest rate was fixed at 5.25%. The Hart County Industrial Authority, Inc. is responsible for making the loan payments.

Note 7. Trust and Agency Fund - Jail Inmate Account

Presentation of Changes in Assets and Liabilities is required for Trust and Agency Funds. The Jail Inmate Account is presented as a Trust and Agency Fund; therefore, presentation of this information is required.

<u>Jail Inmate Account</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>
Assets:				
Cash With Fiscal Agents	\$ 5,150	\$ 59,683	\$ 23,478	\$ 41,355
Total Assets	<u>\$ 5,150</u>	<u>\$ 59,683</u>	<u>\$ 23,478</u>	<u>\$ 41,355</u>
Liabilities:				
Amounts Held In				
Custody For Others	\$ 5,150	\$ 59,683	\$ 23,478	\$ 41,355
Total Liabilities	<u>\$ 5,150</u>	<u>\$ 59,683</u>	<u>\$ 23,478</u>	<u>\$ 41,355</u>

Note 8. Insurance

For the fiscal year ended June 30, 2003, Hart County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 9. Subsequent Events

- A. The county refinanced the General Obligation Refunding Bonds for the construction of the detention facility with Morgan Keegan & Co. at a price of \$3,685,132.
- B. The county agreed to sponsor a T21 grant (ISTEA grant) in the amount of \$381,100 for the Battlefield project. This grant requires a 20% local match.
- C. The county applied for CDBG funds in the amount of \$500,000 to be used for the construction of an industrial wastewater pre-treatment facility.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HART COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,658,695	\$ 2,680,323	\$ 21,628
Road and Bridge Fund	972,500	982,706	10,206
Jail Fund	971,000	799,593	(171,407)
Local Government Economic Assistance Fund	40,700	70,459	29,759
911 Dispatch Fund	180,000	132,800	(47,200)
Tourist Fund	60,000	58,434	(1,566)
Totals	<u>\$ 4,882,895</u>	<u>\$ 4,724,315</u>	<u>\$ (158,580)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 4,882,895
Add: Budgeted Prior Year Surplus	535,539
Other Financing Sources	2,005,700
Less: Other Financing Uses	<u>(1,607,485)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 5,816,649</u>

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SCHEDULE OF OPERATING REVENUE

HART COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE			Totals (Memorandum Only)
	General Fund Type	Capital Projects Fund Type	Debt Service Fund Type	
Taxes	\$ 1,452,973	\$	\$	\$ 1,452,973
In Lieu Tax Payments	80,927			80,927
Excess Fees	20,000			20,000
Licenses and Permits	20,465			20,465
Intergovernmental Revenues	2,941,860			2,941,860
Charges for Services	81,338			81,338
Miscellaneous Revenues	95,896			95,896
Interest Earned	30,856	30	12	30,898
Total Operating Revenue	<u>\$ 4,724,315</u>	<u>\$ 30</u>	<u>\$ 12</u>	<u>\$ 4,724,357</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HART COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,629,475	\$ 1,494,133	\$ 135,342
Protection to Persons and Property	1,306,022	1,279,179	26,843
General Health and Sanitation	579,082	895,832	(316,750)
Social Services	9,656	7,825	1,831
Recreation and Culture	828,645	282,585	546,060
Roads	738,865	616,872	121,993
Debt Service	22,500	16,640	5,860
Capital Projects	48,949		48,949
Administration	653,455	497,380	156,075
Total Operating Budget - General Fund Type	\$ 5,816,649	\$ 5,090,446	\$ 726,203
Other Financing Uses:			
Transfers to Hart County Public Properties Corporation Fund-			
Bond Principal	140,000	140,000	
Bond Interest	161,785	161,785	
Capital Lease Agreements-			
Lease Principal	1,305,700	62,847	1,242,853
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 7,424,134</u>	<u>\$ 5,455,078</u>	<u>\$ 1,969,056</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Hart County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hart County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

Reference Number 2003-1

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Reference Number 2003-2

- The Jailer Should Prepare An Annual Report On The Jail Canteen Fund And Submit It To The County Treasurer In Accordance With Kentucky Revised Statutes



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 3, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Shelton, Hart County Judge/Executive
Members of the Hart County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Hart County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Hart County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hart County's management. Our responsibility is to express an opinion on Hart County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hart County's compliance with those requirements.

In our opinion, Hart County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Hart County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hart County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 3, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HART COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Hart County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Two instances of noncompliance material to the financial statements of Hart County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Hart County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Hart County reported in Part C of this schedule.
7. The program tested as a major program was the Community Development Block Grant for the Roundstone Area Water Expansion Project (CFDA # 14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Hart County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

None.

NONCOMPLIANCES:

Reference Number 2003-1

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2002, \$434,276 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Terry Shelton's Response:

None.

HART COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2003-2

The Jailer Should Prepare An Annual Report On The Jail Canteen Fund And Submit It To The County Treasurer In Accordance With Kentucky Revised Statutes

Our audit revealed that the jailer did not prepare monthly summary and reconciliation reports for the jail canteen fund, nor did he prepare an annual report and submit it to the county treasurer as required by the Department for Local Government. The State Local Finance Officer has issued guidelines for minimum accounting and reporting standards pursuant to KRS 68.210 and KRS 441.135 for the jail canteen fund. KRS 441.135 states, "...The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." We recommend the jailer prepare and submit the required financial reports in accordance with the State Local Finance Officer and Kentucky Revised Statutes.

County Judge/Executive Terry Shelton's Response:

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HART COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grant (CFDA # 14.228)		
Roundstone Area Water Expansion Project	B-01-DC-21-0001-066	\$ 745,473
U. S. Department of Transportation <u>Federal Highway Administration</u>		
Passed-Through State Department of Transportation:		
Intermodal Surface Transportation Efficiency Act Grant (CFDA # 20.205)		
Civil War Battle Site Preservation Project	C-99016515	93,596
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Coordinator Salary (CFDA # 83.503)	NA	<u>3,990</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 843,059</u></u>

HART COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hart County, Kentucky and is presented on the modified cash basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local, Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS

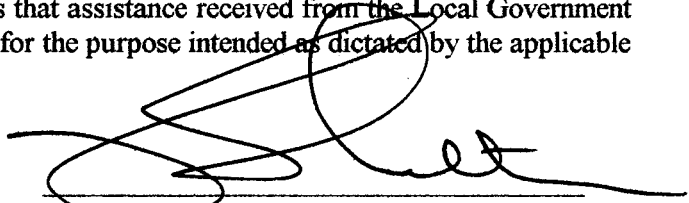
HART COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

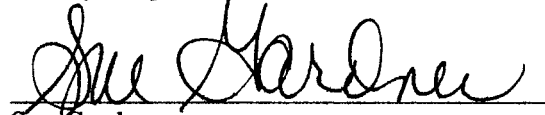
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HART COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Hart County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A large, stylized handwritten signature in black ink, likely belonging to Terry Shelton, positioned above a horizontal line.

Terry Shelton
County Judge/Executive

A handwritten signature in black ink, likely belonging to Sue Gardner, positioned above a horizontal line.

Sue Gardner
County Treasurer

